

Thomas Jefferson to George Washington, August 26, 1790, from the Works of Thomas Jefferson in Twelve Volumes. Federal Edition. Collected and Edited by Paul Leicester Ford.

OPINION ON FOREIGN DEBT

[August 26, 1790.]

Opinion respecting our foreign debt.

On consideration of the letter of our banker, of January 25th, 1790, the Secretary of the Treasury's answer to it, and the draught of powers and instructions to him, I am of opinion, as I always have been, that the purchase of our debt to France by private speculators, would have been an operation extremely injurious to our credit; and that the consequence foreseen by our banker, that the purchasers would have been obliged, in order to make good their payments, to deluge the markets of Amsterdam with American paper of all sorts, and to sell it at any price, was a probable one. And the more so, as we know that the particular individuals who were engaged in that speculation, possess no means of their own adequate to the payments they would have had to make. While we must not doubt that these motives, together with a proper regard for the credit of the United States, had real and full weight with our bankers, towards inducing them to counterwork these private speculations; yet, to ascribe their industry in this business wholly to these motives, might lead to a too great and dangerous confidence in them. It was obviously their interest to defeat all such speculations, because they tended to take out of their hands, or at least to divide with them, the profits of the great operation of transferring the French debt to Amsterdam, an object of first-rate magnitude to them, and on the undivided enjoyments of which they might count, if private speculators could be baffled. It has been a contest of

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dexterity and cunning, in which our champions have obtained the victory. The manœuvre of opening a loan of three millions of florins, has, on the whole, been useful to the United States, and though unauthorized,

I think should be confirmed. The measure proposed by the Secretary of the Treasury, of sending a superintendent of their future operations, will effectually prevent their doing the like again, and the funding laws leave no danger that such an expedient might at any future time be useful to us.

The report of the Secretary of the Treasury and the draught of instructions, present this plan to view: First, to borrow on the best terms we can, not exceeding those limited by the law, such a sum as may answer all demands of principal or interest of the foreign debts, due, or to become due before the end of 1791. (This I think he supposes will be about three and a half millions of dollars.) Second, to consider two of the three millions of florins already borrowed by our bankers as, so far, an execution of this operation; consequently, there will remain but about two and a half millions of dollars to be borrowed on the old terms. Third, to borrow no more as yet, towards completing the transfer of the French debt to Amsterdam, unless we can do it on more advantageous terms. Fourth, to consider the third million of florins already borrowed by our bankers, as, so far, an execution of the powers given the President to borrow two millions of dollars, by the act of the 12th of August. The whole of this appears to me to be wise. If the third million be employed in buying up our *foreign paper*, on the exchange of Amsterdam, by creating a demand for that species of paper, it will excite a cupidity in the monied men to obtain more of it by new loans, and consequently enable us to borrow more and on lower terms. The saving of interest, too, on the stun so to be bought, may be

applied in buying up more principal, and thereby keep this salutary operation going.

I would only take the liberty of suggesting the insertion of some such clause as the following, into the instructions: "The agents to be employed shall never open a loan for

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more than one million of dollars at a time, nor open a new loan till the preceding one has been filled, and expressly approved by the President of the United States." A new man, alighting on the exchange of Amsterdam, with powers to borrow twelve millions of dollars, will be immediately beset with bankers and brokers, who will pour into his ear, from the most unsuspected quarters, such informations and suspicions as may lead him exactly into their snares. So wonderfully dexterous are they in wrapping up and complicating their propositions, they will make it evident, even to a clear-headed man, (not in the habit of this business,) that two and two make five. The agent, therefore, should be guarded, even against himself, by putting it out of his power to extend the effect of any erroneous calculation beyond one million of dollars. Were he able, under a delusive calculation, to commit such a sum as twelve millions of dollars, what would be said of the government? Our bankers told me themselves that they would not choose, in the conduct of this great loan, to open for more than two or three millions of florins at a time, and certainly never for more than five. By contracting for only one million of dollars at a time, the agent will have frequent occasions of trying to better the terms. I dare say that this caution, though not expressed in the instructions, is intended by the Secretary of the Treasury to be carried into their execution. But, perhaps, it will be desirable for the President, that his sense of it also should be expressed in writing.